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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002599

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SUBJECT: REGIONAL ECONOMIES MIXED VIEWS ON TAIWAN FTA PROSPECTS

REF: TAIPEI 2477

Classified By: AIT Director Douglas Paal, Reason 1.4 (d)

¶1. (C) Summary: Taiwan officials agree that a Free Trade Agreement with the United States would have only a small economic impact for Taiwan, but believe that such an agreement will open the door to other, more economically meaningful trade agreements. However, representatives from trade offices in Taipei have mixed opinions on whether a US/Taiwan agreement would make it easier for others to negotiate with Taiwan. Australia and Canada are most negative, while Singapore and New Zealand suggest they would follow the U.S. lead. Japan has no official position, but Taipei-based representatives suggest a Japanese FTA with Taiwan isn't in the cards. End Summary.

¶2. (C) Taiwan authorities use every opportunity to raise the benefits of a FTA with American interlocutors. Although economists in both the U.S. and Taiwan have questioned the economic utility of a FTA, Taiwan officials regularly lament Taiwan's increasing economic isolation as countries in the region sign bilateral and regional trade agreements that exclude Taiwan. One oft-cited benefit for Taiwan of a US/Taiwan FTA is that it would open the door for other regional economies to sign agreements with Taiwan, mitigating fears of Chinese retribution against private companies. Taiwan would then benefit from expanded regional trade and closer links to regional trading partners. Taiwan authorities regularly refer to FTA negotiations with Singapore in 2001 they claim were broken off due to Chinese pressure and a 2001 statement by then Chairman of the Taiwan Institute for Economic Research, Wu Rong-yi (now Vice Premier), who insisted that unnamed Japanese officials had told him that Japan would be willing to sign an FTA with Taiwan if the U.S. would do so first.

¶3. (C) In fact, Taipei-based representatives from larger countries with strong or potentially strong trade ties with China tell AIT they are unlikely to sign bilateral trade agreements with Taiwan, regardless of U.S. action. The smaller, more open economies are more willing to consider bilateral trade agreements with Taiwan if the U.S. leads the way.

¶4. (C) Australian Deputy Representative Ben Gray told AIT that Australia had so adamantly refused to discuss the issue with Taiwan interlocutors over the past two years that in the outgoing Australian Trade Representative's courtesy calls on the Taiwan Minister of Economics, the head of the Council for Economic Planning and Development, the National Security Council and the Council of Agriculture, none of them dared to raise the possibility of an FTA. Australia's ongoing preparatory FTA negotiations with China are in a delicate stage now and the Foreign Ministry would not want anything to upset that process. Australian Foreign Minister Downer is very focused on improving Australian relations and increasing trade with China and has little patience for Taiwan's political gamesmanship, according to Gray.

¶5. (C) Canadian Deputy Director Sumeeta Chandavarkar allowed that Canada currently has only one economic policy issue in Taiwan: reopening the Taiwan market to Canadian beef. There has been no discussion of a free trade agreement with Taiwan and no such discussion will take place, regardless of U.S. policy, until the ban on Canadian beef is lifted. Even then, Chandavarkar was doubtful that there was a domestic constituency in Canada for a Taiwan/Canada FTA.

¶6. (C) Representatives from Singapore and New Zealand were warmer to the possibility that a U.S./Taiwan agreement could pave the way for them to negotiate with Taiwan. Singapore Assistant Trade Representative Eleanore Kang told AIT that Singapore had previously approached Taiwan in 2000 to open discussions on a Free Trade Agreement, but that those discussions had broken down over nomenclature issues. If the U.S. were to negotiate an agreement with Taiwan that included a creative way to finesse Taiwan's name and sovereignty issues, Singapore would be likely to follow the U.S. example.

17. (C) New Zealand's Economic and General Affairs Officer Raylene Liufalani echoed Kang's view that some type of bilateral trade agreement with Taiwan might be possible but only if the name and sovereignty questions were creatively handled. Liufalani noted that Taiwan raises FTA negotiations in every meeting with N.Z. officials and legislators, but serious concerns about Taiwan's protectionist agricultural trade policies and membership in the protectionist G10 in the WTO make it difficult to predict fruitful trade related negotiations with Taiwan.

18. (C) Masahiko Sugita, Director of Economic Affairs of the Interchange Association, Japan's trade office in Taiwan said that Taiwan officials regularly raise the possibility of FTA negotiations with Japan with Interchange officials as well as visiting Japanese legislators. Although Japan has no official position on the possibility of negotiating a Free Trade Agreement with Taiwan, Sugita noted that there was little incentive for Japan to do so. Taiwan tariff rates for most Japanese imports are already very low and Japanese industries prefer private negotiations with Taiwan officials to resolve trade-related problems. In addition, Japanese companies worry that access to the Chinese market will be constrained if the Japanese government signs an agreement with Taiwan, according to Sugita. Although Japan wouldn't rule out FTA negotiations if the U.S. were to first sign an agreement with Taiwan, Sugita was skeptical that such a policy would generate support in Tokyo, especially given recent moves to begin discussions with regional partners on an ASEAN 3 trade agreement.

19. (C) Comment: In none of our discussions with the Taiwan-based representative community was there any real enthusiasm for Free Trade negotiations with Taiwan. Representatives expressed frustration at what they saw as the Chen administration's unfortunate tendency to turn every bilateral discussion into a domestic political tool at the cost for them of needlessly antagonizing China. Ongoing efforts by Australia and Japan to develop closer official trade ties with the mainland would seem to clearly dampen enthusiasm for trade negotiations with Taiwan, regardless of U.S. policy. All noted that stable relations with China were a priority and see Taiwan as a potential problem, rather than a reliable partner. (Note: for the political dimension of this problem, see reftel. End Note.) Even if Singapore and New Zealand were to follow a hypothetical U.S./Taiwan Free Trade Agreement with agreements of their own, the real economic impact for all concerned would be small. The consensus view was that Taiwan would be better served by curbing its inclination to make political hay from its infrequent contacts with foreign partners and focusing on building a reputation as a trustworthy interlocutor. End Comment.

PAAL